

MONTHLY REPORTS mid 2003-06

Monthly Reports 2006

USAID MOBIS CONTRACT No. GS-10F-0014K
INSTITUTIONAL STRENGTHENING IN THE ELECTRICITY SECTOR
MONTHLY STATUS REPORT – JANUARY 2006
PA GOVERNMENT SERVICES, INC.

Activities

- Met with SERC Commissioner Sulkic at his request to discuss several issues that are causing disagreement among the Commissioners. Principally this has to do with the strong objections that EP HZHB has to the entire tariff procedure. They are at war with FERC on end-use tariffs and at war with SERC on Transco tariffs. They are claiming that both Commissions are biased against the Croats and trying to put EP HZHB out of business. I told him that this argument is nothing new, and that EP HZHB has made similar arguments at every stage of the reform and restructuring of the electric sector. He said that they are putting Mr. Topic under a lot of pressure to not agree with any changes that disadvantage EP HZHB, and this causes problems within SERC because he is withholding his approval of the Transco tariff. I told him that I would convey his message to USAID because this could delay the registration of Transco.

We also discussed whether traders who were importing and/or exporting should have licenses from SERC. Sulkic said that it is SERC's position that the only import/export licenses that SERC needed to issue were to the three EPs because they exported and imported at the border of BiH. I told him that has been the position of the IC that all traders who import and/or export should also be required to have SERC licenses so that they would be obliged to operate under the rules of the BiH market. He argued that if they were to require such licenses, then the ongoing exports that are planned for January would not be able to proceed, and that would be to the disadvantage of the exporting EPs. I said that need not impede present plans for the EPs to export if SERC requires that the buyer of these exports (or the seller of imports) were required to obtain a SERC license within a certain time after signing the contract. He agreed that this could be done.

- Met with the ISO GD Omer Hadzic to discuss SERC's approved tariff for the ISO. As I expected because of the lack of justification that ISO had submitted with their request for tariff, SERC did not approve the increases in salary, personnel or investments that ISO requested. I told him that ISO must plan to re-submit during 2006 and the new submittal must include justification for all increases. Further, any increases in personnel must be agreed with the EPs in a corresponding decrease in their budgets so that the net personnel change is zero. We also discussed the transfer of Vukic to Transco, which will create an opening in his management staff that should be filled by a Croat. He said that he is thinking about filling that spot with a telecoms person.

- Met with Mirsad Sabanovic of the ISO to discuss the progress that has been made on the Grid Code and the Market Rules during the past month. He said that the Grid Code is being changed to correspond to the phases that we have identified for the Market Rules. One change they have made to the Market Rules is that when ISO designates the least cost plant to run, an EP can dispatch another unit but will only get paid for the cheapest one. He noted that he was pleased that Azra Hjiro has been named head of planning for Transco because he thinks ISO can work with her, as opposed to Mijatovic who has disagreed with the system planning that is in the Grid Code. Mirsad is concerned that only one of the EPs (EP BiH) has responded to ISO's official request for the EPs to designate generating plants to supply secondary and tertiary frequency control. In particular, EP HZHB is arguing that they will provide their own control and don't need ISO's interference. This is another case of EP HZHB ignoring the requirements of the laws.
- With Merritt and Amila met with EP RS GD Dakic and his staff to discuss the reorganization of the EP into a holding company, and the corresponding changes that must be made to implement the reorganization. The RS Government has not agreed with the independent consultants PWC on the new valuation of capital assets that have been determined by KPMG or on eliminating the internal transfers among the daughter companies. The Government requested that if the internal debts (and accounts receivable) were to be written off, then the external debts should also be written off. Of course, most of these external debts are from the public companies, and thus the Government. We advised that there is no connection between these internal accounting payments and external debt owed to the EP. The latter has a direct effect on the asset value of the EP, whereas the former changes the asset values within the EP. This transfer of assets between the daughter companies is very serious, however, because it would transfer the assets of the distribution companies to the HPPs and Prenos. The result would be that Prenos would transfer its assets into Transco and HPPs Visegrad and Trebinje would own all of the other assets.
- Met with Mr. Sulkic and Mr. Topic of SERC to discuss the initial tariffs for Transco and the tariffs for ancillary services, both of which are scheduled for the next SERC meeting. I told them that it will be very important that SERC be able to provide for an interim tariff at the time when Transco is registered. They spoke of disagreements within SERC on what this tariff should be and the extreme pressure that they were under. However, they do accept that they must resolve their issues and provide for this tariff. On the tariff for ancillary services, I asked that no final position be presented by SERC until a discussion could be had on their proposal. They agreed that a draft position would be published for discussion before a final ruling is made.
- Attended the Donor Coordination meeting and learned that ED Krajina is refusing to transfer the 110 KV assets to Transco. Because of the lack of a strong HQ organization in EP RS, it is difficult to enforce the requirements of the law. The ED with the approval of its Board can make decisions independent of the EP.

- With Merritt, Ankica, Kirby and Elma, met with SERC Commissioner Topic to discuss the tariff for Transco. After much discussion about the pressure on the Commissioners to keep tariffs low, Mr. Topic agreed that they could have an interim tariff ready for 1 February if Transco were to be registered on that date.
- With Ankica, Spemenko, Kirby and Amila, met with RS Minister of Economy, Energy and Development Gligoric to discuss the problems that the Government is causing EP RS by its actions or inactions on the implementation of the EP's recommendation on closing out the accounting for 2005. In the internal discussions in the Government, the Minister of Finance said that the internal transfer payments would have to be taxed, and so could not be written off. He agrees with the EP that this is not the case, and requested that we work with him to convince the MoF to change that decision. We also should lobby the Tax Authority and the Supreme Auditor. He said one problem appears to be that the MoF is not convinced that all of the taxes that are due have been paid. We need to separate the taxes due and paid (or not paid) from the internal accounting situation, and to back up our arguments with the appropriate legislation. On the subject of the transfer of the 110 KV assets from ED Krajina to Transco, Gligoric said that he has been trying to resolve this between the two parties, and that one possible solution is that the 110 KV lines go to Transco and the substations stay with the ED. We commented that this is not what the law states, and that all assets are to be transferred to Transco. He said that the ED argued that if they transferred all of these assets, they would not have adequate assets to be viable. This problem would be resolved if the Government would agree to eliminate the internal transfer liabilities as the EP, along with its independent consultant has recommended.

Issues.

- Under the new decision proclaimed by the FBiH Government on inter-company delivery and tariffs, EP BiH sold its power to EP HZ HB, but EP HZ HB is just forwarding the total cost of that energy onto Aluminiji, which was not what was intended. Aluminiji is a tariff consumer and should be paying the tariff price of its tariff group. EP HZ HB refuses to comply with this, therefore it does not sell its power from the mix of all energy received at the average price.
- The new Tariff Methodology that FERC is using to compute the Inter-company Tariff that EP HZHB will pay to EP BiH does not include total recovery of costs for EP BiH. This is not an adequate formula and causes EP BiH to subsidize EP HZHB.
- TPP Ugljevik was sued by a local contractor who had bid on a tender to supply coal to the TPP. Even though no contract was ever awarded for this, the court awarded the contractor damages that exceeded the original bid.
- The RS Government has signed a Concession Contract for two HPPs on the Vrbas River, and the final Concession Contract has been reviewed and it refers to an Energy Purchase Agreement that we have not seen, and which will contain the liabilities to the EP and ultimately to the Government of 338 million KM.

- The international dispute between BiH and Croatia over the use of water from the Trebisnjica River and Lake Bileca has not been resolved.
- The RS Bankruptcy Law is geared towards allowing creditors to take over a company with outstanding debt and needs to be changed. This is critical for Ugljevik as it was for Gacko last year because there is consideration in the RS Government to letting the company go into bankruptcy.
- The RS Agency for Privatization is attempting to corporatize the EP RS daughter companies before they are restructured, and if that happens, the Government will own less than the 75% required to restructure them
- We are attempting to have the RS Government request that the RS Law on Public Enterprises be amended to reduce the supermajority from 75% to a simple majority required for changes in the structure of public companies so the restructuring of the EP cannot be blocked. The RS MoE has rejected this request.
- The Federation House of Representatives has voted to limit the amount of the electric companies that can be privatized to 49%.
- The Transco IM has ruled the allocation of the SCADA assets between ISO and Transco. The decision supported the recommendation that was proposed by ISO and SEETEC. However, Mijatovic, designated GD of Transco is opposed to the decision and has convinced the RS Government to recommend that the Serb member of the BiH Presidents appeal to the Constitutional Court the provision in the Transco Formation Law that appoints the Independent Member. The RS Government has also appealed the appointment of the present IM because the appointment violated the requirements of that Law.
- The RS Government has refused the request of EP RS to accept the new valuation of the EP and its daughter companies and to eliminate the internal accounting for transfer payments as has been recommended by the independent consultant PWC. If the Government does not take the necessary actions by 20 February, then the internal liabilities will become actual liabilities and all of the assets will be transferred to the HPPs and Transco.

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Activities

- Met with EP RS GD Dakic to review the status of tax payments by the EP. The RS Ministry of Finance is claiming that there are back taxes owed by the EP and therefore the Government cannot agree to the recommendations of the EP to the internal restructuring. Dakic confirmed that the EP has paid all taxes that are due from the EP, and in fact have overpaid in the case of ED Krajina, for which they are now in negotiations to rectify. The argument of the MoF is without merit.
- With Kirby Owen, met with Emir Aganovic of EP BiH to discuss the progress on the harmonization of the Coal Mine Action Plan with the electricity Action Plan. Notwithstanding that the Federation Ministry of Energy required that Coal Mine Breza be integrated into the EP by the end of the year, the most aggressive schedule that the EP has been able to achieve in working with their outside auditors is to achieve a formal decision by the end of June 2006. This means that the Government will have to provide for six months of operating funds for the mine because it is out of cash. The EP has signed a contract with DT to perform the audits of the EP and the coal mine.

Using the information that they have received from Breza Mine, the EP has performed a preliminary evaluation of the mine, and they have concluded that the price of coal can be lower than it is today. Of course, this evaluation was based on the information that the mine provided, and it assumed that the Government would resolve the short-term debts of the mine and assume the costs of reducing the number of excess employees.

- With Amila, met with Radovic and Tesic of EP RS in Trebinje to discuss the details of the tax issues that the MoF has raised. All of the tax issues and the agreement on the internal organization of the EP must be resolved with the Government by 20 February because the EP must report to the Tax Authority on 21 February. The importance in obtaining the agreement of the RS Government on the internal restructuring is that Mijatovic is claiming more than 100 KM that is due to RS Prenos, and this would be lost to the EP if the internal restructuring is not accomplished. After spending a full day in discussions with the EP financial and legal people, we determined that the EP can adequately support their position that all external taxes have been paid (or rescheduled in accordance with the MoF), and that there are no net tax consequences for the Government that will result in the internal restructuring of the EP as has been proposed.

- With Amila, met with Dabovic and Milosevic of EP RS to discuss the tendering for the sale of excess electricity during 2006. Dabovic stated that he is having a problem in arranging for capacity at the border because with the other imports and exports, the transmission capacity is over-subscribed and ISO doesn't have a procedure for dealing with this. I told him that I would work with ISO to resolve this issue. After a meeting with ISO management, we have worked out a procedure that is satisfactory to all of the EPs at this time. Another issue that came up during the discussion was the lack of licenses for traders who will be bidding on purchasing the electricity from EP RS. This issue has been brought to the attention of SERC in a discussion with Mr. Sulkic.
- Met with Faruk of SEETEC to discuss the status of Celia's decisions on Transco. To address out concerns that Mijatovic and his Director of Finance would not have any controls on the money in Transco, she has provided that any contracts greater than 10,000 KM must be co-signed by the Legal Director (Mr. Mehmedagovic, a Bosniak). With regard to the resistance of ED Krajina to transfer the 110 KV lines to Transco, EP HZHB has stated that until this transfer occurs, then the IM retains her extraordinary powers.
- Met with Mirsad Sabanovic of ISO to discuss the import/export problems as they apply to a loading of the transmission lines. Mirsad confirmed in a visit to Belgrade last week that the Serbian side of the 400 KIV line that Mijatovic built under-the-table has been completed, and that this line will become operable in April 2006. He confirmed also that EP HZHB is importing 250 MW from EFT, most of which comes from EP RS. This means that the customers of EP HZHB are paying EFT a markup (profit) on their purchases from EP RS because they did not bid on the EP RS tender.
- Met with Omer Hadzic to discuss the new SCADA Project Management proposal that we drafted. He has discussed this in general with Chabrier of EBRD, but has not given him a copy of the draft. The schedule that he has agreed with EBRD is that after six months of financials with the new tariff, EBRD will begin the transformation of the loan. He also confirmed that ISO will not pay VAT, and that Transco will pay VAT that was included in the revenue requirement of 120 million KM that SERC approved.
- With Ankica, Spemenko, Kirby and Amila, met with RS Deputy Minister of Finance Kodic to discuss the tax issues that have caused the RS Government not to approve the reorganization of the EP that has been proposed by the EP and the Ministry of Industry, Energy and Development. He said that the RS Government accepts the KPMG evaluation and recommendations to eliminate the internal relations of the EP as long as the EP and KPMG state that there are no resulting tax liabilities. The Government is not in a position to guarantee that there will be no future tax liabilities, and will hold the company responsible for this. Based on this position, the Government agreed to approve the recommendations of the EP on reorganization.
- Met with Mirsad Sabanovic of ISO. Hadzic has agreed with Mijatovic that all data will be collated by the regional centers and then sent to ISO. This is a concession that we had not been willing to make previously. In the final meeting

of the Grid Code Technical Committee, it has been agreed that ISO is responsible for secondary regulation. However, all EPs want ISO to work through their dispatching centers instead of directly with the generation plants. This will have to be resolved in the future.

- With Amila, met with Azra Hjro to discuss the new contract that she has received from Mijatovic that states that the Planning Director will be located in Banja Luka, as opposed to her earlier discussions with Celia. She said that the PIU is to be under the Planning Director, but is now located in Banja Luka, and that it should be located in Sarajevo.
- Met with Celia, John Williams, Alex, Peter and Faruk at SEETEC. The meeting was described by Celia as a "Pro-Azra Meeting", in that she was looking for support to assure that Azra would accept the Director of Planning position. Celia agreed that this position should be located in Sarajevo, and that the PIU should be part of her responsibility.
- On the last day that it was required to act, the RS Government refused to approve the reorganization of EP RS that was recommended by KPMG, by the EP and approved by USAID. This was the final act of the outgoing Government, but the EP did obtain a ten-day extension of time so that they could possibly take this up again with the new RS Government.

Issues.

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- We are attempting to have the RS Government request that the RS Law on Public Enterprises be amended to reduce the supermajority from 75% to a simple majority required for changes in the structure of public companies so the restructuring of the EP cannot be blocked. The RS MoE has rejected this request.
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- The RS Government has refused the request of EP RS to accept the new valuation of the EP and its daughter companies and to eliminate the internal accounting for transfer payments as has been recommended by the independent consultant.

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Activities

- Met with Mike Trainor in the office of Emerging Markets in Arlington, VA for an introductory meeting on the project that he is leading on the evaluation of the USAID projects in Bosnia.
- In its first session, the new RS Government has reversed the decision of the old Government and has accepted the request of EP RS to approve the new valuation of the EP and its daughter companies and to eliminate the internal accounting for transfer payments as has been recommended by the independent consultant. EP RS has completed its books based on this new decision, and has met the reporting requirements of the Government.
- With Amila, met with Mike Trainor and Sveta from Emerging Markets who are performing an evaluation of the USAID projects in Bosnia. We provided a technical and political background to the power sector and of the work that PA has done over the past five years.
- Met with Omer Hadzic, GD of ISO to discuss the status of the work at ISO. He reported that EP BiH has agreed to assist ISO in some fashion to obtain the building in Hadzici, though the exact legal form of this assistance has not been decided. He said that the budget in the SCADA project for rehabilitation of the ZEKC premises is adequate for the rehabilitation of the building in Hadzici.

ISO has submitted the Grid Code to SERC for their approval. The Market Rules have not been submitted yet because SERC's draft proposal for ancillary services tariffs is different from SERC's tariff methodology, which has been followed in the Market Rules, and ISO is waiting for SERC to resolve this discrepancy. My advice was to go ahead and submit the Market Rules as written and then SERC will be forced to resolve the problem. The SCADA project continues to be delayed because the Transco people will not participate. We need to get the new Project Management organization agreed so that the project can move ahead.

- With Amila, met with Edin Zaminica of SERC, who had met with the unions representing the electricity sector after they had requested a meeting with SERC. Their agenda included: (1) workers' rights were being ignored by the regulator; (2) the transition between Transco and gencos and discos should be reconsidered; (3) BiH should have a TSO instead of an ISO; (4) the unions are against all reforms in the electricity sector; (5) the unions are against BiH's

participation in the Energy Treaty; and (6) they are against tariffs for exports. Edin told them that he was only prepared to discuss the first item, because all of the rest are the results of laws that have been passed by the legislatures. In spite of his unwillingness to discuss any other item, they made a statement that the major problems that the sector and the unions are facing result from the reforms that have been led by PA Consulting, referring specifically to Amila and me. On another issue, Edin told us that the EFT subsidiary in BiH, EEG, has applied for a trader's license, and that there was a public hearing scheduled for 23 March to consider it. They had stated their assets as 10,000 KM, which they were told is inadequate to hold a trader's license, so EFT is trying to transfer the assets of the energy purchase agreement that they have from EP RS from the Fatnicko Tunnel Project to EEG so they will have adequate financial qualifications for a license.

- With Merritt, Bill Lawrence, Ankica, Spomenko and Amila, met with Milan Julic, the new RS Minister of Economy, Energy and Development, along with his new Assistant Minister, Ljubo Glamocic in Banja Luka. The Minister said that BiH must stick to the policy of forming a single economic space, and that both Entities must support this; and also that he thinks that everyone in both Entities should work towards a single State. However, at the same time, the needs of the two Entities must be satisfied. This applies to electricity, oil and gas, and also to coal. We should be using BiH coal before we import coal from Serbia. He said that the same attitude should be applied to agriculture and that we should take advantage of domestic BiH products vs. imports.

The Minister said that he would support the 2005 agreement that was made between the two previous Entity Ministers of Energy on developing a joint investment strategy. He said that he supports the idea of the unification of the regulators and the creation of a State Gas Law. On the privatization of the Stari Coal Mine, he said that it was done like the privatization of some banks in the RS, where the liabilities of the old company were not taken into consideration, and that he thinks that the RS Law on Privatization was violated. The newly proposed enterprise that has been proposed by the new owners would not be approved by the RS Government, and that this issue is unresolved.

- With Merritt, Bill Lawrence, Ankica and Amila, met with the new FBiH Minister of Energy, Mining and Industry, Heco, along with his new Assistant Minister Dragan. Merritt described the problem that Mijatovic is presenting as the new GD of Transco that is against the laws of BiH and also against the best interests of the FBiH. The FBiH should seriously reconsider their participation in Transco unless some corrective measures are taken. The Minister said that he will meet with EP BiH GD Kreso to discuss this in more detail. The Minister said that he is aware of the 2005 agreement between the two previous Entity Ministers of Energy, and is favorably inclined towards this cooperation, and is looking forward to discussing it with his counterpart in the RS.
- Met with Omer Hadzic of ISO after his meeting with Siemens to discuss the SCADA Project. Because of the delays caused by the lack of cooperation by Transco, Siemens said that the costs are increasing by 350 euros/month. He emphasized the need to quickly get approval of the new Project Management Agreement, and he will send a letter with the draft agreement to EBRD in London

to ask for official bank approval. With regard to implementing this new agreement, Transco IM Celia Whitaker told Omer that Azra Hjero would be responsible for the SCADA Project within Transco. Of course, we know that this will be unacceptable to Mijatovic, and he will fight this decision.

- With Merritt and Amila, met with Kreso and Dospotovic of EP BiH to discuss the problems that we are having with Mijatovic, and possible ways to resolve them. We discussed the draft Project Management Agreement that we have prepared for ISO, and asked for his support in getting it approved and in its implementation. We emphasized that to make it work, Azra Hjero would need to receive the support of Kreso, and in particular, she would need to have a strong deputy in her role as Manager of Planning and Engineering in Transco, and that deputy should come from EP BiH.
- With John Williams, met with Celia Whitaker, Transco IM to discuss the results of the Transco Board meeting and other items in the formation of Transco. She reported that the Board meeting went quite smoothly, with no major disagreements, and that her discussions with Mijatovic had provided no reason for concern that anything was not going as it should. She said that Mijatovic had requested the following as areas that SEETEC could assist Transco: (1) internal organization; (2) payroll structure; (3) harmonization of salaries and benefits; (4) Exchange of experience on regulation and tariffs; and (5) reinforcement of versatility with regard to the opening of the regional market. The first three of these were stated to be the highest priority, however, the last one, which is double-talk for manipulating the market, is the one in which we believe Mijatovic has the most interest.
- Met with Mirsad Sabanovic to discuss the SERC decision on import and export tariffs. The document has several serious problems, and we agreed to draft a response to SERC to make some changes and corrections to the document. The main problem is that the tariffs that are indicated in the document are in violation of the CBT Agreement with the neighboring countries. The tariffs specified also badly discriminate against the two EPs that export in favor of the EP that imports. In addition, the document makes several statements that are in violation of the laws with respect to the jurisdiction of the ISO, and these must be corrected. ISO drafted a letter to be sent to SERC requesting changes to the document to correct these deficiencies.
- Met with Les Kasprowicz, a consultant with the company that has been hired by the EC to work on BiH energy strategy. He has no background in the BiH energy sector or in BiH politics. I referred him to the USAID documents that are the products of our work in BiH over the past five years as background.
- With Merritt, met with Willy Kotiuga, the new Project Manager of SEETEC, along with Peter Czech and Faruk of SEETEC. This was Willy's first trip to BiH to evaluate the work SEETEC is doing so that he can make a recommendation to CIDA on future involvement. Merritt told them of the response that USAID is taking to the problems that Mijatovic is causing, and how that might affect the formation of Transco. Willy said that everyone that they had met with in BiH, including the EC, had told him of the need for SEETEC to continue to work with

Transco management in the formation of the company. He sees two primary roles for SEETEC: to assist the management team in structuring the organization, and in working with the Board on developing a strategy for the company. We responded that we agreed with these objectives, and that these efforts would be required whether or not there was a change in management.

Issues.

- SERC's new decision on import and export tariffs is arbitrarily discriminatory towards the two EPs that export and in favor of the EP that imports.
- The end-use tariffs that FERC has determined have different tariffs for the two FBiH EPs, so instead of unifying the FBiH market, they have made it more separated.
- The new Tariff Methodology that FERC is using to compute the Inter-company Tariff that EP HZHB will pay to EP BiH does not include total recovery of costs for EP BiH. This is not an adequate formula and causes EP BiH to subsidize EP HZHB.
- Transco GD Mijatovic continues to ignore the requirement of the laws that form Transco and ISO, and is working towards the creation of a TSO, with the corresponding changes in the SCADA system.
- TPP Ugljevik was sued by a local contractor who had bid on a tender to supply coal to the TPP. Even though no contract was ever awarded for this, the court awarded the contractor damages that exceeded the original bid.
- The RS Government has signed a Concession Contract for two HPPs on the Vrbas River, and the final Concession Contract has been reviewed and it refers to an Energy Purchase Agreement that we have not seen, and which will contain the liabilities to the EP and ultimately to the Government of 338 million KM.
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Activities

- Met with Mirsad Sabanovic of ISO to discuss operational problems of ISO. He said that the investments that are being discussed within the ISO for inclusion in the revised budget submittal to SERC need to be closely reviewed. ISO is receiving requests from different developers to consider additions to the grid, including 150 MW that is said to be required for the 5-C Corridor project (sounds much too high) and an additional 300 MW of wind farms. I advised that ISO should not be discussing these with developers, but that the developers should be going through a *standard procedure that should be developed by MOFTER and the Entity Governments*. I agreed to discuss with MOFTER. Mirsad said that there is not total agreement within ISO about including the 110 KV lines in the high voltage system. This is another indication of the weak management being provided by Omer Hadzic.
- Met with John Williams, advisor to the head of MOFTER, to discuss the planning process for new projects. He agreed that the lead should be taken by MOFTER, and said he would develop a draft procedure to show that all contacts should go through MOFTER. He also wanted to discuss the scopes of the new TA programs that are being proposed by USAID and by the EC. His understanding of the different scopes of work are that USAID/PA would be responsible for assisting in the EP restructuring and assisting the ISO; USAID/Pierce Atwood would be responsible for legal and regulatory work on the integration of the regulatory commissions; and all other regulatory work, including day-to-day TA would be the responsibility of the EC contractor.
- With Merritt, Bill, Ankica and Amila, met with the newly appointed FBiH Minister of Energy, Industry and Mines, Vehid Heco, and his assistant, GD Kreso and Emir Aganovic of EP BiH, GD Maric of EP HZHB and the President and members of the Transco Board of Directors to discuss the problems that are being caused for the FBiH by the actions of Dusan Mijatovic in the formation of the Transco. Minister Heco requested that the results of this meeting would be an agreement by all parties in attendance in support of the FBiH as a shareholder in the formation of the Transco. He requested that Merritt lead the discussion. Without going into detail, Merritt said that USAID, the US Embassy, OHR and others were against the appointment of Mijatovic as the GD of Transco. However, since the EC's consultant, acting as IM, appointed him, Merritt had agreed to give Mijatovic a chance to show if he would act in a manner that is good for the entire BiH. It is now clear that he is not doing that, and that his actions are detrimental to the majority of the people of the BiH, and therefore

Merritt, along with the US Government must withdraw support of Mijatovic. We believe in creating a strong State, and that is why USAID has supported the creation of a State-wide Transco and Independent System Operator. This is not what Mijatovic is working towards – he is working to create a Transco exclusively located in Banja Luka that will totally control the entire BiH electricity system. Merritt said that the FBiH Government, as majority shareholder of Transco, should decide if its position is being properly represented, and if it is not, then it should take some action.

Mr. Kreso said that EP BiH totally supports the position that Merritt presented. He said that the EP BiH Board has recommended that the two FBiH EPs withdraw their decisions on transfer of assets for Transco and re-evaluate the assets because the RS has counted liabilities of the transmission division as assets. The Board further stated that the FBiH EPs should not transfer telecoms to Transco because Transco management plans to misuse these assets with regard to the electricity sector. Mr. Maric had some general complaints about the formation of Transco as it is biased against the Croats, but he said that supports the efforts to make Transco work properly.

The President of the Transco Board said that the Board had voted 4 to 3 against the election of Mijatovic, with the four FBiH members voting against him, but that the IM had overridden the Board's vote and appointed him. The Board had also requested a review of the three members of the Board that were appointed by the RS because they were all Serbs, but the CoM had responded that it was too late to discuss this since the IM had already appointed the GD. He reported that the IM had overridden the Board on the Statute, and on the contract for Azra. The IM is acting unilaterally on such things as defining planning and engineering and on telecoms. He said that the RS has nominated the Assistant to the Minister of Energy to be the RS' Shareholder Assembly representative, and that FBiH should nominate a Shareholder Assembly representative also. The other Transco Board members reported that one of the RS Board members stated that Transco should be centralized in Banja Luka; which is just what Mijatovic is trying to do.

Kreso stated that the entire BiH is held prisoner of the IM and the GD of Transco, and that the IM does not have the qualifications to argue with Mijatovic, so she accepts all of his proposals. He recommended that the EPs withdraw from Transco. Aganovic said that now that the company is formed, the IM should lose her extraordinary powers to represent shareholders. Kreso said that the Shareholders Assembly should represent the shareholders in proportion to the actual assets of the shareholders.

The action that was agreed at the end of the meeting was that the EPs will each designate a person (Aganovic from EP BiH and Lasic from EP HZHB) along with Mr. Begic from the Ministry to develop a White Paper for the Minister with recommendations, to be submitted in one week.

- Met with Omer Hadzic, GD of ISO to discuss the status of the work at ISO. He agreed with the proposal that MOFTER should be the initial contact for anyone interested in adding capacity to the system. He said that the Market Rules will be submitted to SERC before the end of April. SERC has not provided a

reasonable response to the letter that ISO sent requesting some changes in the interim tariff with respect to imports and exports. The SCADA project continues to be delayed because the Transco people will not participate. We need to get the new Project Management organization agreed so that the project can move ahead.

- Mijatovic has sent a letter to Siemens requesting that all work be stopped on the SCADA project until Transco can provide for a new design. This is the latest and most egregious of his attempts to take full control of the electricity system and move all controls to Banja Luka.

Issues.

- SERC's new decision on import and export tariffs is arbitrarily discriminatory towards the two EPs that export and in favor of the EP that imports.
- The end-use tariffs that FERC has determined have different tariffs for the two FBiH EPs, so instead of unifying the FBiH market, they have made it more separated.
- The new Tariff Methodology that FERC is using to compute the Inter-company Tariff that EP HZHB will pay to EP BiH does not include total recovery of costs for EP BiH. This is not an adequate formula and causes EP BiH to subsidize EP HZHB.
- Transco GD Mijatovic continues to ignore the requirement of the laws that form Transco and ISO, and is working towards the creation of a TSO, with the corresponding changes in the SCADA system. His latest move to try to control Siemens and the SCADA project is more proof of his mischief.
- TPP Ugljevik was sued by a local contractor who had bid on a tender to supply coal to the TPP. Even though no contract was ever awarded for this, the court awarded the contractor damages that exceeded the original bid.
- The RS Government has signed a Concession Contract for two HPPs on the Vrbas River, and the final Concession Contract has been reviewed and it refers to an Energy Purchase Agreement that we have not seen, and which will contain the liabilities to the EP and ultimately to the Government of 338 million KM.
- The international dispute between BiH and Croatia over the use of water from the Trebisnjica River and Lake Bileca has not been resolved.
- The RS Bankruptcy Law is geared towards allowing creditors to take over a company with outstanding debt and needs to be changed. This is critical for Ugljevik as it was for Gacko last year because there is consideration in the RS Government to letting the company go into bankruptcy.

- We are attempting to have the RS Government request that the RS Law on Public Enterprises be amended to reduce the supermajority from 75% to a simple majority required for changes in the structure of public companies so the restructuring of the EP cannot be blocked. The RS MoE has rejected this request.
- The Federation House of Representatives has voted to limit the amount of the electric companies that can be privatized to 49%.
- The Transco IM has retracted some of her earlier decisions on the organization of Transco at the request of the GD that will cause centralization of the company in Banja Luka at the expense of jobs in Sarajevo.
- The new RS Government has reversed the decision of the old Government and has accepted the request of EP RS to approve the new valuation of the EP and its daughter companies and to eliminate the internal accounting for transfer payments as has been recommended by the independent consultant.

USAID MOBIS CONTRACT No. GS-10F-0014K
INSTITUTIONAL STRENGTHENING IN THE ELECTRICITY SECTOR
MONTHLY STATUS REPORT – MAY 2006
PA GOVERNMENT SERVICES, INC.

Activities

- Met with Samir Besirevic, the local representative of the IFC who is interested in Bank investment opportunities. He asked if we had access to any plans for new generation projects in BiH. I told him that the EC-sponsored energy strategy study for BiH had not yet begun, but that the Entities were undertaking some of this planning. I suggested that he meet with the two Entity Ministers of Energy to obtain further information.
- Met with Omer Hadzic, GD of ISO, to discuss the status of the SCADA project and other items. He sent the draft of the new SCADA Project Agreement to all of the participants. The only response that he has received is from EP HZHB who rejected this draft without comments or recommended changes. He has had discussions with Transco management who are in total disagreement with the idea that ISO will lead the project.

Omer attended the last Transco Board Meeting at which Mijatovic stated that he has an agreement with the EPs on the EBRD loan repayment where the EPs will retain liability and he will pay them for his portion of the loan. Upon further checking with the EPs, the EPs have agreed on a one-month's transition period to do this, but only after all of the agreements have been made on the distribution of the liabilities between Transco, ISO and the EPs, and approved by the Bank.

ISO revenue is down by about 5% because the energy use in BiH is that much lower. Because ISO has no reserves, it has sent a request to SERC for interim tariff relief to recover this shortfall. SERC has made no official response, but has stated unofficially that it cannot do this and that ISO should arrange to borrow this money to make up for their cash shortfall.

- With Amila, met with Mr. Dabovic of EP RS to discuss the sale of excess electricity. Because of the concerns that we had previously expressed to Mr. Dakic, GD of EP RS, about the non-transparent sales that were being conducted by Deputy GD Vukovic, Dakic has created a new commission that is responsible for sales of power. The commission consists of Radovic, corporate lawyer, Dabovic, and two of his energy analysts. They are writing regulations for the operation of this commission and will send a draft to us at the beginning of June.

Dabovic is concerned that the energy balance is manipulated so that the most efficient energy sales is not being achieved. The annual energy balance that was approved for 2006 was based on the outages of the thermal plants to be

taken at a time of high water (and therefore market low energy prices). This would provide for having the maximum amount of energy to sell when the market prices are the highest. However, what has happened is that the two TPPs have delayed their outages to miss the high water time, and will have to be taken out of service when the market prices are high. This will diminish the revenue to the EP and give the purchaser of their excess energy a windfall – they are able to purchase at the low market price and then sell at the higher price. The contract for sales has been won in tender by EFT. The person who is in charge of the TPPs is Deputy GD and Technical Director Vukovic, who is from Belgrade and is not a permanent employee but is “acting” in his position. He has been appointed to this position because he is “acting” and not elected by the management and the Board. We are performing an analysis to determine the loss in revenue to the EP because of these manipulations of the outage schedules, and will present these to Mr. Dakic.

EP RS will file a complaint with SERC about the new Transmission Tariffs for that penalize exporters and benefit importers. EP BiH, the other exporting EP will file a similar complaint.

- Met with Emir Aganovic to discuss the reform efforts ongoing in EP BiH. The committee that Minister Heco formed to make recommendations on the actions of Transco that could potentially be damaging to FBiH submitted its report to the minister as requested, and on 20 April this report was sent to the Transco Board members from FBiH. He has heard no feedback since then. On this same subject, Siemens has delivered the TNMS to Banja Luka. Transco argued that it was needed for testing the system as it is being installed. Mijatovic has claimed ownership and requested that Siemens give Transco the invoice for this system and create another TNMS to invoice ISO. Of course there is only one TNMS, and now Mijatovic has control of it, as he has intended all along.

With regard to the evaluations of the Breza Coalmine prior to combining it with EP BiH, they are waiting for the results of the audit of Breza. However, the EP is discouraged because the FBiH Government has refused to accept any liabilities for the old debts or for the social program that must accompany the redundant workers. Without some financial assistance in these areas, the EP will suffer a large loss in completing this transaction.

- With Kirby and Amila, met with Peter Czech and Faruk of SEETEC. They have seen the new business plan that Transco has submitted to SERC, and it contains the investments that Transco wants SERC to approve. Some of the projects for which he is requesting budget approval were added at the last minute by the Prenos division of EP RS in Banja Luka, and therefore have not been approved the EP or by anybody else. This list of projects has not been sent to ISO for their review as is required in the laws and in the regulations. The investments include money for SCADA that would be funded from his internal funds, and would be outside the EBRD SCADA Project. The amount listed is the equivalent of the cost of the TNMS. We have requested that SERC sent this investment back to Transco and have them submit it to ISO for their review before SERC takes any action.

- With Kirby, met with Mirsad Sabonovic of ISO to discuss several critical items ongoing in ISO. The Czech utility Chez has been meeting with the RS Government and with EP RS to plan for building a new 600 MW TPP unit at Gacko, either on the same site or an adjacent one. Chez is also meeting with ISO and SERC to discuss this project. These events point out once again the absence of any formal method for potential new investors to approach BiH to discuss their plans. We have begun work with MOFTER (John Williams before he left) to create such a plan and methodology that would consider all of the necessary steps that must be taken before these developers meet with ISO to plan for new connections. This work needs to be continued to completion.

Transco has had meetings with the ISO Management Team (GD and two Deputies) to discuss the sharing of control of the 110 KV lines. All of the 110 KV line should be under the control of ISO. During the review of the Grid Code, Transco representatives of the Technical Committee argued that all 110 KV lines should be controlled by Transco. This was not agreed by the Committee, and the Grid Code does not so state. However, as is typical of Mijatovic, he continues to try to make it happen. Unfortunately, the ISO Management Team is not strong, and may wear down and give in to this request.

This same ISO Management Team is conducting all of the hiring of new employees at ISO. They have hired most of the quota for their 2006 budget, and none of these new hires have the experience that is needed to strengthen ISO. There are a number of potential people in the EPs that have not been considered. ISO has spent its budget and has not added the needed strength and expertise.

The SCADA Project gets more confused every day. Of course Transco does everything it can to confuse the project and to attempt to change the design and take over the role of ISO, and the project management is not effective in keeping the project on its design path.

With EFT having trading licenses from both RSERC and SERC, it will be able to cause capacity problems like they did in 2001 and 2002. We need to make sure that Tier 1 customers have first priority to the System, and then control access to cross border transactions by specifying the border point and by having transparent commercial arrangements.

- With Kirby, met with Omer Hadzic to discuss the results of the last Transco Board Meeting that he attended. He said that in this meeting, Celia Whitaker, the Independent Member, stated that all real-time data would go to ISO directly, and not through the Transco regional centers as Mijatovic had requested. Omer said that this statement should be in the minutes of the Board meeting, but that Mijatovic has not published these minutes yet. It is Mijatovic's practice to write minutes of meetings, as he wants them to be, not as they occurred, so we must be on the lookout for this.
- With Merritt, Heather, Ankica, Pierce Atwood and PA, met with FBiH Minister Heco to discuss a number of issues. With regard to the amendments that the FBiH Parliament has proposed to the Electricity Law to limit the powers of the FERC, he agreed that they should not be passed. However, he said that his

position gives him only minor influence over Parliament. Merritt responded that the US Embassy and OHR are against these amendments, and that it is very important for the FBiH Government to make a statement in favor of the reform and of the regulatory system. He said that the Government is at fault because it has no social program to take care of those who have trouble paying their utility bills.

With regard to the actions of Transco that can damage the assets and therefore the people of the FBiH, Minister Heco said that he sent the recommendations of his committee to the FBiH Board Members of Transco and they responded by agreeing to form a shareholders assembly. He has also spoken to the RS Minister about the problem of controlling State companies. He has had no support from MOFTER.

In discussing the Harmonized Action Plan of the coalmines, Heco said that he has a problem with EP BiH because they don't want to provide any money for rehabilitation of the coalmines. [What the EP actually has said is that they will provide the money for new investment, but that the Government should take care of old debt and for providing for the social program for redundant miners.] Then Heco said that he has prepared a decree for the Government to assume all old debt to the Government. All of the audits of Breza should be completed by the end of June, and then they will discuss how to deal with the costs of 200 disabled miners, and plan to have the deal closed by the end of August. Because the EP is considering taking the bankrupt Breza Mine, the Government is considering throwing in a couple of good mines in the deal.

The greatest need of the Government is to find funds to finance the social program that must accompany the reform of the coalmines. Heco has requested that all of the mines offer voluntary retirement plans for their employees. When Merritt asked if he needs any technical assistance in the work with the mines, Heco said that he need assistance in finding the money for the social fund.

Heco announced his plan to initiate new investments to build new thermal power plants. He was excited about the possibility of having concessionaires assist in these efforts, and this is his top priority and is supported by the Government.

The FBiH Ministry of Energy is working on an FBiH Energy Law that would have an independent regulatory commission regulate all energy prices. With no State law, we must start with an Entity law, and this should be the first priority, before a State Gas law. He has also tasked his staff to start work on a Law on Privatization.

- With Kirby and Amila, met with Radovic and Lasic of EP RS and Jelkovic, assistant Minister of Energy (formerly of EP RS) to discuss the harmonization of the RS Action Plan. During the discussions, we learned that the SDS members of the RSNA, who had turned down the EP's request to form the holding company that is part of the Action Plan, requested that the RS Government re-address the decree on creating the holding company. This revised Action Plan is to justify the decision of that decree. The Government may still insist on implementing the previous provision that Milovanovic inserted that the Government appoints a Board member to each of the daughter companies. It is

mandatory that we eliminate this provision. A revised draft of the Action Plan that is harmonized with the Federation Action Plan was produced, and the EP will review it for finalization within a few days.

- With Kirby and Amila, met with Hadzic, Sabanovic and Dolic of ISO to review the investments that Transco has submitted to SERC for approval in their 2006 Business Plan. None of the new investments that are listed have been discussed with ISO and some of them are unknown to the ISO. The SCADA investments appear to be for the purchase of the TNMS, and totally out of order as this is intended for purchase for ISO as part of the EBRD Loan. ISO will send a letter to SERC requesting that SERC inform Transco to submit these investments to ISO for their review before SERC takes any action,

SERC has requested that ISO make some changes to the Grid Code and the Market Rules that appear to be more than just procedural changes. These need to be discussed with SERC before ISO makes an official response. One of the changes is that ISO not refer to the introduction of a single BiH market in Phase II, with the argument that BiH already has a single market. This is obviously not true, but is an attempt to hide the political problem of referring to a single market.

- SERC staff has informed ISO that Transco is planning to receive the money for their losses and to trade with this in the market. This is consistent with Mijatovic's statements in a meeting a year ago, at which time Commissioner Dakic supported this position. Of course, there is no plan to pay Transco for their losses, or to give Transco a trader's license.
- With Merritt and Kirby, met with Omer Hadzic at ISO. We discussed the problems that ISO is having with Transco and with SERC. Merritt used this meeting to insist that Omer must take a tough and active position to fight for ISO's rights by law, and to stand up to the attempts of Mijatovic to bypass the existing laws and regulations and agreements. He told him of the discussions ongoing in Europe about splitting apart TSOs to form separate Transcos and ISOs, which is the opposite to Mijatovic's argument that all of Europe has TSOs and therefore BiH should also.

Issues.

- SERC's new decision on import and export tariffs is arbitrarily discriminatory towards the two EPs that export and in favor of the EP that imports.
- The end-use tariffs that FERC has determined have different tariffs for the two FBiH EPs, so instead of unifying the FBiH market, they have made it more separated.
- The new Tariff Methodology that FERC is using to compute the Inter-company Tariff that EP HZHB will pay to EP BiH does not include total recovery of costs for EP BiH. This is not an adequate formula and causes EP BiH to subsidize EP HZHB.

- Transco GD Mijatovic continues to ignore the requirement of the laws that form Transco and ISO, and is working towards the creation of a TSO, with the corresponding changes in the SCADA system. His latest move to try to control Siemens and the SCADA project is more proof of his mischief.
- TPP Ugljevik was sued by a local contractor who had bid on a tender to supply coal to the TPP. Even though no contract was ever awarded for this, the court awarded the contractor damages that exceeded the original bid.
- The RS Government has signed a Concession Contract for two HPPs on the Vrbas River, and the final Concession Contract has been reviewed and it refers to an Energy Purchase Agreement that we have not seen, and which will contain the liabilities to the EP and ultimately to the Government of 338 million KM.
- The international dispute between BiH and Croatia over the use of water from the Trebisnjica River and Lake Bileca has not been resolved.
- The RS Bankruptcy Law is geared towards allowing creditors to take over a company with outstanding debt and needs to be changed. This is critical for Ugljevik as it was for Gacko last year because there is consideration in the RS Government to letting the company go into bankruptcy.
- We are attempting to have the RS Government request that the RS Law on Public Enterprises be amended to reduce the supermajority from 75% to a simple majority required for changes in the structure of public companies so the restructuring of the EP cannot be blocked. The RS MoE has rejected this request.
- The Federation House of Representatives has voted to limit the amount of the electric companies that can be privatized to 49%.
- The Transco IM has retracted some of her earlier decisions on the organization of Transco at the request of the GD that will cause centralization of the company in Banja Luka at the expense of jobs in Sarajevo.
- The new RS Government has reversed the decision of the old Government and has accepted the request of EP RS to approve the new valuation of the EP and its daughter companies and to eliminate the internal accounting for transfer payments as has been recommended by the independent consultant.
- Transco has submitted a new tariff request to SERC with a list of investments that has not been approved through the required procedures of having ISO review and approve these investments prior to the submittal to SERC.

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Activities

- With Merritt and Amila, met with Envir Kreso, GD of EP BiH to discuss the progress on integrating the coal mines into the EP. Two big stumbling blocks to solving the problems of the coal mines must be solved by the FBiH Government: the mines have a debt of 200 million KM to the Government, and 7,000 miners should be made redundant at a cost of 15,000 KM per miner. The existing annual cost of coal for the TPPs is 250 million KM. This could be reduced by 50 to 70 million KM if the appropriate mines were rehabilitated. The present activities are that an independent audit is being performed to determine the assets and liabilities of Breza Mine. When this is completed, then there need to be changes in the management of the mine to install EP management at the mine.
- SERC made some comments and changes to the Grid Code and the Market Rules that were not consistent with the version that ISO had agreed with the Technical Committee. Omer Hadzic, GD of ISO agreed that USAID meet with SERC Commissioner Sulkic to discuss these changes. With Merritt, Ankica, Kirby, Jane and Amila, met with Mirsad Sulkic, SERC Commissioner, to discuss these suggested changes. We reached mutual agreement on all of the issues except the statement in the Market Rules that Phase II of the transition will be marked by the creation of a single electricity market in BiH. Sulkic said that it would be impossible to get agreement by the three commissioners on any statement about a unified BiH market, and so that had to be deleted. We agreed to substitute a different milestone for the beginning of Phase II, and to include all of the other modifications on which agreement was reached.

The same day that USAID met with Sulkic, Hadzic issued a letter from ISO to SERC agreeing with all of the changes that SERC had proposed, thus completely short circuiting the agreements that we had achieve with Sulkic. The reason that he gave for doing this was that he did not want to upset SERC with any disagreements. This is one more indication of the lack of proper leadership at ISO.

- At his request, Amila met with Dr. Dizdarevic, Board member of ISO from Sarajevo. He has heard about the difficulty that ISO has had in working with Transco, and wanted some more information. He had not heard of all of the antics that Mijatovic is doing to create a TSO, nor was he aware of the white paper that the FBiH Ministry of Energy, Industry and Mines has prepared with

recommendations on actions that need to be taken to protect the FBiH shareholders of Transco.

Dizdarevic said that he is concerned about Omer Hadzic's leadership of ISO. He thinks he is lazy, won't stand up to Mijatovic, and is not the leader that ISO needs to create a strong, independent company. All he seems to be interested in is traveling and having dinners. He said that the three Serb members of the ISO Board are under Mijatovic's control. He pays them a fee and provides his car and driver for them

- With Amila, met with Dabovic of EP RS to discuss the power sales from EP RS during the first half of 2006. The biggest problem that he has encountered has been the delay in the outages of the TPPs compared to the annual plan. Both TPPs were planned to have their outages during the months of high water because that is the time of lowest market price of electricity. However, the outages of both TPPs were delayed so that they sold their excess power at the low market price, and then the outages occurred during periods of high market price when they had no excess to sell. The difference in profits to the EP because of this change was a loss of 700,000 KM. These outages were delayed by many weeks, so it appears that the original schedule was not met on purpose. The beneficiary of this was the purchaser of this power, who bought at the lowest price of the year and then could sell at the high market price. The purchaser was EFT. The person responsible for the outage schedule was Vukovic, the acting EP Technical Director, who was recently dismissed from his role of daily trading of energy because of questionable dealings with EFT.
- With Merritt, met with Herbert and Anita of OHR to inform them of the attitude of SERC on not being willing to discuss a single market in BiH because of the reluctance of the RS to discuss any combined functions at the State level. Herbert said that the OHR is losing its influence because the EC is insisting that OHR have no influence in economic matters. However, he agreed that he would discuss this issue with the EC.
- The miners have sent a letter to FBiH Minister Heco requesting that the price of coal be raised from 4 KM/ Gj to 5 KM/Gj in order to relieve the problems of the coal mines. This is just the opposite of what EP BiH has proposed in their plan to modernize the coal mines that supply coal to the TPPs. The EP's plan is that by eliminating the old uneconomic mines and refurbishing the remaining mines, the price of coal should be decreased. This request of the miners will be a problem for the Government in this election year, and it could result in the EP having to swallow this increased cost with no increase in tariffs.
- With Amila and Jane, met with Omer Hadzic and Mirsad Sabanovic of ISO to discuss the market opening schedule that SERC has published and how this will affect the potential Eligible Customer Rules that the Entity regulators are now writing. ISO stated clearly that the BiH market could not meet the market opening dates that were listed by SERC (which are the dates in the Treaty), and that these dates would have to be modified in the future. ISO also said that the existing Market Rules do not protect against international traders that have domestic trading licenses creating market power at the expense of domestic

participants in the market. Now that these international traders have domestic licenses, the Market Rules must be revised immediately.

- With Merritt, met with Philip Schubert, director of the SEETEC project and Faruk of the local SEETEC office. Philip had just been to the Athens conference, and reported that the EC is taking a very strong position on enforcing the market provisions of the Treaty. He said that legal action is being threatened if the provisions in the Treaty are not met. Merritt responded that the only legal action that could be taken in BiH would be in the BiH courts, and that would have no impact on enforcing the provisions of the Treaty. The provisions in the Treaty that are technically not possible in BiH (or in any of the countries) will have to be made exceptions.
- Met with Mirsad Sabanovic of ISO to review the ongoing work of ISO. He pointed out the announcement that Aluminij of Mostar has been approved by its German owners to expand production by 50%, although there have been no discussions about the increase in electricity that it will take to meet this expansion. This again points out that there is not an adequate procedure for adding new electrical capacity or demand that would have ISO perform the systems studies before these new demands are approved. He also discussed the need to immediately rewrite the Market Rules to account for the international traders who also have domestic trading licenses to keep them from having market power that limits the capabilities of the domestic market. He said that he hopes that PA will return very soon because this is such a critical time for the industry now, and ISO needs the assistance of PA.

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- Transco GD Mijatovic continues to ignore the requirement of the laws that form Transco and ISO, and is working towards the creation of a TSO, with the corresponding changes in the SCADA system. His latest move to try to control Siemens and the SCADA project is more proof of his mischief.
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- The Federation House of Representatives has voted to limit the amount of the electric companies that can be privatized to 49%.
- The Transco IM has retracted some of her earlier decisions on the organization of Transco at the request of the GD that will cause centralization of the company in Banja Luka at the expense of jobs in Sarajevo.
- The RS Action Plan has been harmonized by the Working Group which consists of the EP, the Ministry and PA. This is now at the RS Government for approval.
- Transco has submitted a new tariff request to SERC with a list of investments that has not been approved through the required procedures of having ISO review and approve these investments prior to the submittal to SERC.
- The Federation Coal Mines have requested to the FBiH Government that the price of coal be increased from 4 KM/Gj to 5 KM/Gj.